UNIVERSITY OF SASKATCHEWAN AND FEDERATED COLLEGES

NON-ACADEMIC PENSION PLAN

FINANCIAL STATEMENTS

For the Year Ended December 31, 2006

Provincial Auditor Saskatchewan

SASKATCHEWAN

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V2

Phone: (306) 787-6398
Fax: (306) 787-6383
Web site: www.auditor.sk.ca
Internet E-mail: info@auditor.sk.ca

AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the University of Saskatchewan and Federated Colleges Non-Academic Pension Plan as of December 31, 2006 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits, accrued pension benefits and surplus of the Plan as at December 31, 2006 and the changes in the net assets available for benefits and changes in accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
April 5, 2007

Fred Wendel, CMA, CA
Provincial Auditor

UNIVERSITY OF SASKATCHEWAN AND FEDERATED COLLEGES
NON-ACADEMIC PENSION PLAN

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS,
ACCRUED PENSION BENEFITS AND SURPLUS
As at December 31

Statement 1

	2006	2005
Assets		
Cash	$ 559,706	$ 141,817
Receivables:		
Employee contributions	200,024	189,436
Employer contributions	200,024	189,436
Accrued interest and dividends	768,932	788,275
Investment securities sold	218,387	1,043,200
	1,387,367	2,210,347
Investments (Note 3):		
Short term notes	6,196,178	3,474,750
Bonds and debentures	63,706,057	61,568,721
Equities	90,336,793	89,952,291
Pooled funds	93,243,233	76,730,919
	253,482,261	231,726,681
Total assets	255,429,334	234,078,845
Liabilities		
Accounts payable	872,389	1,286,534
Total liabilities	872,389	1,286,534
Net Assets Available for Benefits (Statement 2)	254,556,945	232,792,311
Accrued Pension Benefits (Statement 3)	194,154,000	173,916,800
Surplus	$ 60,402,945	$ 58,875,511

(See accompanying notes)

UNIVERSITY OF SASKATCHEWAN AND FEDERATED COLLEGES
NON-ACADEMIC PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
For The Year Ended December 31

Statement 2

		2006		2005
Increase in Assets				
Investment income:				
Interest	$	4,496,042	$	4,640,929
Dividends		2,793,902		2,098,547
		7,289,944		6,739,476
Current period change in fair values of investments		21,585,029		17,880,979
Contributions:				
Employee		2,542,238		2,280,754
Employer		2,542,180		2,280,606
		5,084,418		4,561,360
Total increase in assets		33,959,391		29,181,815
Decrease in Assets				
Plan expenses (Note 4)		664,838		700,212
Pension benefits paid		6,781,814		6,567,508
Refunds and transfers		4,748,105		4,988,892
Total decrease in assets		12,194,757		12,256,612
Increase in net assets		21,764,634		16,925,203
Net assets available for benefits at beginning of year		232,792,311		215,867,108
Net assets available for benefits at end of year (to Statement 1)	$	254,556,945	$	232,792,311

(See accompanying notes)

UNIVERSITY OF SASKATCHEWAN AND FEDERATED COLLEGES
NON-ACADEMIC PENSION PLAN

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

For the Year Ended December 31

Statement 3

	2006 (Note 5)	2005 (Note 5)
Accrued Pension Benefits, beginning of year	$ 173,916,800	$ 180,959,900
Increase in Accrued Pension Benefits:		
Interest on accrued benefits	12,328,200	12,833,500
Benefits accrued	7,966,000	8,154,600
Changes in assumptions	6,868,600	---
Experience loss	4,604,300	---
	31,767,100	20,988,100
Decrease in Accrued Pension Benefits:		
Benefits paid	11,529,900	11,556,400
Changes in assumptions	---	16,474,800
	11,529,900	28,031,200
Accrued Pension Benefits, end of year (to Statement 1)	$ 194,154,000	$ 173,916,800

(See accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

1. Plan Administration

The University of Saskatchewan and Federated Colleges Non-Academic Pension Plan (Plan) is administered by a Fringe Benefit Committee, composed by an equal number of appointees of the Board of Governors and the University of Saskatchewan Employees Union. The Committee provides recommendations to the Board of Governors in matters of Plan amendments and also maintains liaison with all those concerned with the operations of the Pension Plan, including the Board of Governors, the trustee, the investment advisors, the actuary and the members of the Plan.

Description of the Plan

The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan agreement.

a) General

The Plan is a contributory defined benefit pension plan open to all Non-Academic employees of the University of Saskatchewan who are employed on a permanent full time, seasonal full time or permanent part time basis. Participation in the plan is compulsory after completing one year of service.

b) Retirement Benefits

The normal retirement date of a member is the first day of the month immediately following their 65th birthday. The annual amount of pension is determined as 2% of the member's best four years average pensionable salary multiplied by the member's service.

The above is a normal form of pension which provides for monthly payments for life with a minimum of 120 monthly payments being guaranteed.

c) Disability Retirement Benefits

The annual amount of pension is determined by applying the regular retirement benefit formula. Section 4.01(2) of the Plan provides that during a period of disability the member will be deemed to have received earnings at the member's full normal rate of pay.

d) Termination Benefits

A member becomes locked-in upon completion of two years of continuous service.

A member who terminates employment with the University prior to being locked-in is entitled to an amount equal to their accumulated contributions with interest.

Upon termination of employment after achieving locked-in status a member may elect:

i) to receive a deferred retirement benefit; or

ii) a locked-in transfer equal to the greater of:

a) the commuted value of the member's accrued pension; or

b) two times the member's required contributions with interest.

iii) to receive a partial cash refund of 50% of their accumulated contributions with interest to December 31, 1993, in which case the member's deferred retirement benefit or transfer amount will be reduced accordingly.

e) Death Benefits

The beneficiary of an employee who dies before retirement will be entitled to receive the greater of a refund of two times the required contributions made by the member with interest or the commuted value of the retirement benefit accrued by the employee to date of death.

For an employee who is deceased after retirement, the surviving beneficiary will be entitled to receive the form of pension elected by the member at the member's retirement date.

f) Plan Improvements

Section 15 of the Plan makes provision for the use of any actuarial surplus to be applied firstly to the declaration of bonus pensions to existing pensioners, with any remaining surplus to be used to improve the benefits of members in the Plan.

g) Required Contributions

In accordance with the terms of the Pension Plan Agreement members are required to contribute 4.92% of regular earnings.

h) Funding Policy

The Pension Plan Agreement requires the University to contribute an amount equal to at least the member's required contributions.

The most recent actuarial valuation for funding purposes disclosed an actuarial surplus. It has been determined that the University's future service cost is to be maintained at the level set in the plan to the next valuation. The present rate of contribution is considered adequate to fund the future service benefits.

2. Significant Accounting Policies

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the sponsor and plan members. They are prepared to assist plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the plan or the benefit security of individual plan members. These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following policies are considered significant.

a) Investments

Short-term notes are recorded at cost which approximates market value.

Investments in bonds, debentures and equities are recorded at market values which are determined by reference to closing year end sales prices from recognized security dealers or, in the absence of recorded sales, by reference to closing year end bid and ask prices.

Investments denominated in foreign currency are translated at the exchange rate in effect at year end. Investments and realized gains and/or losses are translated at the exchange rate in effect at the transaction date. Unrealized gains and losses resulting from exchange differences are included in the determination of the current period change in fair value of investments.

Units held in pooled funds are valued at the closing sales prices of the underlying securities and are reported by the principal securities exchange on which the underlying securities are traded.

Fair value of investments approximates the market value. Transactions are recorded as of the trade date.

b) Receivables/Payables

Receivables and payables are non-interest bearing and are due or payable within the next year. Due to their immediate or short-term maturity the cost approximates the fair value.

3. Investments

The investment objectives of the Plan are to ensure the Plan has sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. Due to the long-term horizon of the Plan's liabilities, the Plan takes a long-term investment perspective. The strategy employed to achieve these objectives is to invest cash flows from contributions, maturing debentures and investment returns into assets such as money market securities, bonds, Canadian and foreign equities and pooled funds.

a) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities.

The value of the Plan's assets is affected by short-term changes in nominal interest rates. The Plan manages interest rate risk by investing in bonds and debentures with varying years to maturity.

b) Credit Risk

Credit risk arises from the potential for an investor to fail or for a counter party to default on its contractual obligations to the Plan. The Plan limits the credit risk by dealing with counterparts that are considered to be high quality. The credit ratings used to describe the securities below are based on the Dominion Bond Rating Service, Standard and Poor's, Moody's Investor Services and Fitch Ratings.

c) Foreign Currency Risk

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies results in a positive or negative effect on the fair value of investments. The Plan manages the foreign currency risk by limiting the Plan's holdings of foreign investments and by diversifying the investment portfolio by country.

d) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Plan's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures.

Short-term Investments

Short-term investments are comprised of T-Bills, notes and commercial paper with an effective interest rate of 4.17% (2005 – 2.95% to 3.43%) and a term to maturity of 90 days or less. The Plan's investment policy states that investments must meet a minimum investment standard of "R1", as rated by a recognized credit rating service.

Bonds and Debentures

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized credit rating service. BBB rated bonds cannot exceed 15% of the market value of the bond portfolio.

	2006 ($000)					2005 ($000)	
Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Current Yield	Total Market Value	Current Yield
Under 5	9,943	2,962	6,077	18,982	3.59% - 8.66%	22,559	2.81% - 6.24%
5-10	2,527	4,237	9,956	16,720	4.03% - 7.28%	19,685	4.04% - 8.26%
Over 10	10,399	11,176	6,429	28,004	4.04% - 5.81%	19,325	4.49% - 5.72%
Market Value	22,869	18,375	22,462	63,706		61,569	

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Equities

The Plan's investment policy allows no one holding to represent more than 12% of the market value of the equity portfolio and no one holding to represent more than 10% of the common stock in any corporation. The average dividend rate is 3.02% (2005– 2.47%).

	Market Value ($000)	
	2006	2005
Common shares	$ 74,643	$ 77,537
Foreign common shares	15,694	12,415
	$ 90,337	$ 89,952

Pooled Funds

The Plan holds units in pooled funds which have no fixed interest rate and its returns are based on the success of the manager.

Investment in a pooled fund should not exceed 10% of the market value of the pooled fund.

The Plan's pooled Canadian funds are comprised of the Jarislowsky Fraser Special Equity Fund, Phillips, Hager & North Small Float Fund and Phillips, Hager & North Investment Grade Corporate Bond Trust, Phillips, Hager & North Mortgage Pension Trust.

	Market Value ($000)	
	2006	2005
Foreign	$ 62,886	$ 48,589
Canadian	30,357	28,142
	$ 93,243	$ 76,731

The Plan's foreign-pooled funds are comprised of the Phillips, Hager & North Overseas Equity Pension Trust, Phillips, Hager & North US Pooled Pension Fund, Sceptre Foreign Equity Fund and Jarislowsky Fraser International Equity Pooled Fund.

Investment Return

The following is a summary of the Plan's investment performance:

As of December 31, 2006	1 year	4 year
Plan Return	12.7%	11.7%
Plan Objective	12.7%	11.7%

The Plan's fund objective for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indexes such as the Toronto Stock Exchange Index, Standard & Poor's 500 U.S. Stock Index, Morgan Stanley Europe Australia and Far East Index, Morgan Stanley World (ex-Canada) Index, Scotia Capital Markets Universe Bond Index, 91-day Treasury bills.

4. Plan Expenses

	2006		2005
	Budget	Actual	Actual
Investment management fees	$463,700	$443,681	$446,591
Trustee fees	91,200	93,855	87,755
Administration fees	63,279	53,343	66,054
Actuarial and consulting services	91,400	73,959	99,812
Total	$709,579	$664,838	$700,212

5. Accrued Pension Benefits

Aon Consulting Inc., a firm of consulting actuaries, performed an actuarial valuation on the Non-Academic Employees' Pension Plan as at December 31, 2006 and an actuarial extrapolation as at December 31, 2005. The present value of accrued pension benefits was determined using the projected benefit method prorated on service and the best estimate assumptions approved by the Fringe Benefit Committee.

Significant long-term actuarial assumptions used in the valuation were:

	2006	2005
Salary escalation rate	3.5%	3.5%
Inflation rate	3.0%	3.0%
Interest rate	6.75%	7.0%
Post-retirement indexing	1.0%	1.0%
Mortality table	UP 94 projected to 2007	UP 94 projected to 2005

During the year, the mortality and interest rate assumptions were updated. This has resulted in an increase to the accrued pension benefits of $6,868,600.

The actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from assumed rates of: salary 3.5%, interest rate 6.75% and inflation rate of 3.0%.

	Long Term Assumptions					
	Salary		Interest		Inflation	
	4.5%	2.5%	7.75%	5.75%	4.0%	2.0%
(Decrease) Increase in obligation for pension benefits	4.0%	(3.6%)	(11.9%)	15.2%	(8.9%)	10.6%

The discount rate, salary increase and Income Tax Act maximum pension increase are all linked to the inflation rate. Therefore, changing the inflation rate by plus/minus 1% will automatically increase/decrease the discount rate, salary increase and Income Tax Act Maximum pension increase assumptions by 1%.

The pension liability is long term in nature. The Plan has no intention of settling its pension obligation in the near term and there is no market for settling its obligations. Therefore, determination of the fair value of the pension liability is not practical.

To help ensure the on-going financial viability of the Plan, the Plan Agreement under section 15.01, establishes a Contingency Reserve in the Pension Fund from surpluses generated. The target level of the Contingency Reserve is equal to 10% of the accrued liabilities as determined by the Actuary.

The University contributes to the Plan on behalf of its employees based on the advice of the Plan's actuary within minimum amounts specified in accordance with the Plan and the collective bargaining agreement. The assets, including any potential surplus in the plan, are for the benefit of the members and their beneficiaries. There is no provision that allows the withdrawal of the surplus by the University.

6. Related Parties

The Plan is related to the University of Saskatchewan and other pension plans sponsored by the University of Saskatchewan.

The Plan pays for plan expenses, including certain administration fees and miscellaneous expenses, which the University of Saskatchewan incurs and charges the Plan. The expenses charged by the University of Saskatchewan in 2006 were $21,036 (2005 - $28,038).

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled on normal trade terms. Other transactions are disclosed separately in these financial statements.